



A Return to Optimism – While Mitigating Risk

by Robert Wm. Dean | December 6, 2007 |

For more than 30 years I have worked with companies around the world on supply chain related business opportunities. One thing the senior executives of those firms had in common was a relentless, positive perspective and motivation for change management to optimize inventories, increase on-time deliveries, improve their cost of supply acquisition, provide better service, open new markets, introduce new products, etc.. That optimism went along way to fuel supply chain improvements. As risk management becomes the pervasive mantra throughout the supply chain world, this optimistic approach is being replaced by fear-based motivation.



From earthquakes in Kyoto, to tsunamis in Thailand, along with hurricanes, global terrorism, tainted products from foreign markets and economic events like the skyrocketing cost of oil, external risk cannot be denied. Growing in importance are internal factors that contribute to this supply chain risk, including system failures, weak processes, data errors and poor decisions. Yes, these internal and external factors have always been with us, but in an ever-increasing integrated global business world, the magnitude of risk has risen significantly. Every day more evidence is revealed in reports, studies and articles to support this view. In lieu of adding to the panic I would turn our attention to answering the question, What can we do about it?

Can the global business community make sense of this fear-based motivation and improve the ways we conduct business in light of risk? Not only can we make sense of this risk but we have an

opportunity to leverage the recent visibility into risk to rally the team and defend our supply chains against this threat. **Perhaps time for a return to optimism:** risk management and more optimistic objectives for a business are not mutually exclusive, but rather offer an opportunity for a powerful new and more positive cycle, combining the two. Understanding your unique "view" and organizational or supply chain maturity provide us with an ideal starting point to launch our journey.

The first step requires an honest assessment of where we are as organizations and supply chains. This starting position helps define our view or perspective. By perspective, I mean "How do you view the scope of change" at your firm? Many companies I have worked with have a singular focus, and look only within the four walls of their firms. Most C-level executives get compensated for those types of results. Many executives talk about the welfare of the supply chain but really believe that an internal view is the only way to operationally manage firms. When you think of changing anything in your supply chain world, do you just look within your business unit, your function, or your team? Or do you work collaboratively across your firm? Combined with a sense of organizational maturity, this internal only view is at the lower end of a maturity scale. Organizational maturity is directly aligned with supply chain maturity. In fact, many firms do not even work well together inside their firms, and that to suggest that they take a wider perspective or "view" of competitive collaboration outside their firms would be sheer folly.

However, the perspective that some progressive companies are taking is to look "backwards" to their suppliers and view the supply chain as an extended enterprise to be managed and optimized for mutual, multi-firm benefits. Yes, some companies (a very small percentage) have moved from beating up their suppliers for another 5-10% of cost reductions of strategic commodities through their purchasing departments to true Supplier Relationship Management (SRM) whereby a sourcing/procurement function within a company proactively engages their suppliers to collaboratively work with them to create a competitive advantage for the pair. In a CFO Research Services survey of 247 top financial executives, 38 percent said that their corporations were exposed to too much unmanaged supplier risk. Such soft advantages are starting to drive competitive value in the marketplace. By collaboratively working together with suppliers of strategic commodities, new products can be introduced to the market, new services approached can be developed, and a competitive advantage can often be attained making it hard for other competitors to win new business from your customers.

So far we have reviewed internally integrated and supplier integrated perspectives. The most powerful perspective is to take an even broader view of the supply chain -- from your supplier 's supplier all the way through to your customer's customer. The most advanced firms with higher supply chain maturity take the proactive approach to work with their customers to actively engage in the development of a joint integrated competitive advantage. This customer-value or voice-of-the-customer approach is clearly not for the faint-of-heart because it requires a level of internal organizational maturity including skills, information and – not least - courage of the senior executives. However, here lies the greatest opportunity to couple optimistic business attainment objectives with risk management (remember, they are not mutually exclusive).

Our quest to answer this question is contingent on a clear understanding of the scope of supply chain risk we recognize today as well as acknowledging what we do not readily see. This visibility to where we are will dictate steps towards risk mitigation. Further, a different result requires a different approach and for most organizations taking truly collaborative, capability-building, competitive path is a healthy change, even if the motivation is fear.

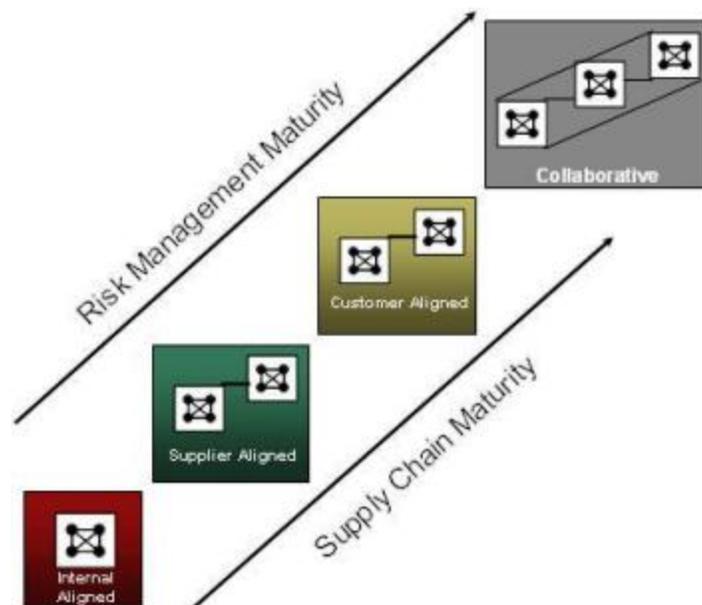
If your customers are commercial accounts, then their own fear of "supplier failures" (by you) were also reflected on the afore-mentioned CFO Research Services surveys. As a supplier to your customers, take a proactive approach to working together to identify, prioritize and plan risk strategies and do so in a way to create a unique competitive value. In 1998, I had the opportunity to lead a global market study with the American Productivity and Quality Center in Houston, Texas (www.apqc.org). The results at that time showed that value from supply chain was shifting from internal to supplier to customer based value. The inhibitors to that value transformation were the usual suspects; executive perspective, organizational skills and information as provided by technology. It is fascinating to me that after a decade these findings still hold true today , which is both an indictment of the current state of SCM as well as an indication of the unexploited opportunity that resides there.

Again, organizational maturity must be overlaid here to have a valid perspective of where your firm stands in its ability to create a supplier-aligned competitive advantage. Many firms I have worked with do not only have this enlightened perspective but they also lack the organizational skills and information from their IT applications to achieve this approach. An integrated internal process whereby R&D works with engineering, who works with sales, who works with manufacturing, and

who also includes the sourcing function is an advanced concept many companies will never achieve because of the lack of experiences, skills, and personalities of the senior executive team, unless they are brave enough to look outside of their four walls.

An ideally-integrated supply chain would literally manage the delivery of value (and minimize the risks) to all the players: your suppliers; your firm; your customers. However, the actual starting point for the design and metrics of such an "extended enterprise" process must start with THE CUSTOMERS and what they value in terms of the SCM process (metrics of success that would make YOU their ideal provider, maximizing their benefit and minimizing their risk). Such process attributes can then be used to define and design the infrastructure and management disciplines required within the process (including those of your firm and YOUR SUPPLIERS) to collectively meet the customers' vision of an ideal, extended/joint enterprise process¹.

And, not coincidentally, the same discipline would be designed into the process that passes YOUR requirements back to YOUR SUPPLIERS as their customer. The result makes supply chain a win win win proposition, reducing risk while managing high-value outcomes for all the firms involved.



So as we pose the question "What can we do about it?" part of the answer lies in the sequence of activities. Perhaps the most logical order of attack would begin with internally controlled risk, followed by supplier related and ultimately customer injected risk. There is not one right sequence but clarity on your perspective and your state of maturity will help determine the correct sequence for your firm. An important benefit that many ignore is the value of knowledge transfer between customers and suppliers. This requires the courage to reveal the need for help, a characteristic of transparency more common among collaborative companies. Tackling supply chain risk as a supply chain is the ultimate response.

Answering this question What can we do to reduce supply chain risk? has a few prerequisites. First an honest assessment of your organization's supply chain maturity coupled with a willingness to reveal weakness and ask for help. This fear-based motivation to improve supply chains calls for some courage but has the prospect of very constructive results. With the knowledge of where you are along with insight to where your supply chain partners lie on maturity and risk continuums a series of activities can be agreed to reduce internal or partner injected risk while developing strategically sound contingencies for external risk. In all cases including the knowledge and power of customer and suppliers is a far better response to overcoming fear and insuring stronger, risk resilient supply chains that deliver value.

In this time of approaching supply chain improvements from a fear-based perspective based on risk, a supplier-aligned customer-value approach not only can increase a company's competitive advantage but also provides a platform for identifying, prioritizing and mitigating risk. Risk management is change and should be approached not on a basis of fear, but as an opportunity to create new relationships based on a positive, optimistic perspective to be competitive based on the wants and needs of customers thereby strengthening your position in the marketplace.

¹The Customer-Centered Enterprise (McGraw Hill 2000) and Who Stole My Customer (Pearson – Financial Times 2004) for the detail on how-to.)